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C O N F I D E N T I A L SECTION 01 OF 02 RIGA 000324

SIPDIS

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SUBJECT: SAEIMA PASSES NEW MONEY LAUNDERING LAW, WITH A  
CATCH

Classified By: CDA STUART SELDOWITZ FOR REASON 1.4(b)

11. (C) Summary. On Thursday, June 5 the Saeima (parliament) voted to approve the long-awaited, new Anti Money Laundering (AML) laws to bring Latvia in compliance with EU norms. During the final vote, however, six new amendments, which greatly reduce the effectiveness and usefulness of the law, were added and approved. Opposition party New Era and the Prosecutor General have expressed deep concern over the issue and New Era has submitted a letter requesting that Latvian President Zatlers send the law back to Saeima. Although some feel that the law should be approved and amended later, as it is already grossly overdue to the European Commission, others believe that it is no longer in line with the European Commission requirements, and cannot be approved. End Summary.

12. (C) In an unexpected move on Thursday, a majority of Saeima members voted to include several amendments to the new AML law, essentially reducing the power of law enforcement officials to share information among themselves and greatly reducing their ability to prosecute money launderers. MP V.E. Bresis (Greens and Farmers - Aivars Lembergs' party) submitted six proposals during the Saeima session. He stated they had been prepared by a lawyer, but would not specify which. (Comment: Bresis is being called a "postman" and is not seen as the driving force behind the changes. Speculation is that Aivars Lembergs is involved, but this has not been confirmed. End comment.) Our contacts in the Financial Intelligence Unit (FIU) in the Prosecutor General's office stated that these proposals had been submitted earlier in the legislative process, but initially refused outright. Essentially, the amendments allow organizers of money laundering schemes to avoid criminal responsibility. The new text redefines money laundering: where the old text stated that money laundering was assets illegally obtained both directly (from a victim) and indirectly (from an intermediary, etc.) the new text eliminates the illegality of "indirectly". Money launders would be prosecuted if and only if direct intent could be proven. Press commentators speculate that this would make it much harder to prosecute Latvia's oligarchs for corruption. The new changes also limit communication between law enforcement offices, forcing all dialogue to go through the Prosecutor General's office.

13. (C) There are two distinct halves of the new law: the banking section and the law enforcement section. While the effectiveness of the law enforcement half has been significantly reduced the banking portion has been improved. For example, the new law reduces the amounts of cash transactions and international transfers necessitating investigation. There is one negative change on the banking side: previously all employees were trained in how to detect money laundering. The new law reduces that to only people responsible for money laundering issues. Our contacts at the Financial and Capital Market Commission (FCMC) state that this is of minor concern, as it's easy to work around to continue the same level of across-the-board training. More pressingly, the new AML laws are mandated by the European Commission, and Latvia's deadline for implementation was

December 15, 2007. Having missed that date, and facing possible penalties, our FCMC contact states that, unless these concerns can be addressed expeditiously, it is better to pass the law and amend the trouble areas later in the fall.

14. (C) There has been an outcry from New Era and the Prosecutor General's office against the Saeima changes. Our New Era contact in the Saeima Legal Affairs Committee stated that these laws were originally lobbied both by the U.S. and the EU in order to fight money laundering and the finance of terror. Acceptance of the new AML law, in compliance with European Commission directives, has already been greatly delayed. However, our contact considers the last-minute amendments untenable because they tone down the power of the Prosecutor General's office and change the definition of money laundering altogether, making it easier for oligarchs and those with business interests in Latvia to continue to use their offshore accounts. Our contact stated that he cannot immediately foresee this system being used for the finance of terror, but that someone looking for one to use for this purpose would find an easy conduit. New Era has submitted a letter to Latvian President Zatlers, asking him to send the law back to Saeima for further consideration. President Zatlers has seven days to either sign the law or send it back to parliament.

15. (C) Bankers are not opposed to Zatlers sending the law back to Saeima. Although they understand the need to meet the European Commission's deadline for the AML law, they can understand the concern generated by yesterday's changes to the text. Furthermore, a contact in the banking industry stated that he believes the new document is no longer in

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compliance with the European Commission's requirements. This would be the most compelling argument to review the document again. It would also allow Post to step back and let the Latvian authorities correct their own system without our higher-level input.

16. (C) Comment. The long-awaited revised AML laws have succeeded in surpassing the worst case scenario. Not only have they taken far longer to draft and revise than originally mandated, but the final vote has proven the old adage, "the best laid plans of mice and men..." If accepted, the laws will add further road blocks to the prosecution of Latvian oligarchs for corruption. That said, although the situation is worrisome, the noncompliance with European Commission requirements may be the tack that is needed to force the issue and finally pass the useful document that Latvia, the EU and the U.S. have expected for over a year.  
End Comment  
SELDOWITZ